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Report Highlights:

The Government of the Russian Federation announced that a three year quota will be in effect for all poultry products starting May 1, 2003. The yearly quota will be 1.05 million metric tons (MMT), though the pro rated 2003 quota will be reduced to 744,000 MT. However, overall trade in poultry meat is forecast to decrease only slightly in 2003, to 1.285 MMT, as companies import and store extra poultry prior to the imposition of the quota. Russian broiler production is forecast to reach 600,000 MT in 2003, a 12 percent increase, due to a favorable demand outlook and also the introduction of quantitative restrictions.

Includes PSD changes: Yes
Includes Trade Matrix: No
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Executive Summary

The Russian market for meat will be in flux starting the second quarter of 2003 as a poultry import quota and TRQs on beef and pork alter the market situation. The quota on poultry, adopted by the government on January 23, will go into effect on May 1, 2003. Consequently, Russian poultry production is expected to grow at a brisk pace due to a continued favorable demand outlook and the introduction of quantitative restrictions on imports. Production of broiler meat is forecast to reach 600,000 MT in 2003, an increase of 12 percent. Total poultry consumption is forecast grow, but trade will only reach last year's levels due to high carry in stocks and imports in prior to the quota.

Production

Production of broiler meat is forecast to reach 600,000 MT in 2003, 12 percent greater than 2002 and almost 40 percent more than 1999. The pattern of rapid growth is forecast to continue due to strong demand and the price effects of the implementation of the poultry quota (described in the Policy section). Turkey production is also expected to continue its rise, though from a small base level.

Similarly, the Russian State Statistics Committee estimated poultry production in 2002 at 980,000 MT (slaughter weight). According to the Russian Academy of Sciences, total poultry production was 1.29 MMT (live weight) in 2001.

Additional factors supporting growth in broiler meat production are increased management skill, introduction of new technology, investment, consolidation of the industry, and improved feed quality and quantity. The first group of factors all relate to the significant increase in the quality of business management and livestock management. Most enterprises that remained viable after the 1998 financial crisis have expanded their production and/or been sold to one of the larger agribusiness holdings that have developed. These poultry enterprises are now better able to gain access to credit and expertise that allows them to increase efficiency in all areas. They are using Western expertise in livestock health and production methods to adapt and improve local production techniques. Thus, improvement is seen both in general business management and poultry management.

Table 1. Qualitative and Quantitative Characteristics of the Russian Poultry Industry, Selected Years 1990-2001

	1990	1999	2000	2001
Annual egg production , per hen	236	253	262	271
Feed use per dozen eggs, feed units	1.91	1.75	1.70	1.55
Average broiler gain weight per day, grams	21	27	33	35

Feed utilization per kilo of weight gain, feed units	3.44	2.80	2.70	2.5
Poultry meat production, live weight, MMT	2.5	1.1	1.12	1.29

Source: Poultry and Poultry Products Magazine, #3-4, 2002

Investment in the Russian poultry sector is coming from different sources, including government and private business. For example, the Moscow regional administration has adopted a program aimed at lifting the region out of its 1998 financial crisis condition by making enterprises more competitive, boosting production, and supporting domestic producers from 2003 to 2005. The overall plan will require 7.5 billion rubles from producers, 1.3 billion from investors, and 364 million from the regional budget. Poultry meat output increased by one-third in the region during 2000-2002 as a result of a previous program.

Table 2. Russian Poultry Data, 1999-2002

	1999	2000	2001	2002
Total Number of Chickens and Turkeys, mln	356	346	339	343
including				
big farms	215	208	205	216
Including egg layers and pedigree stock	100	98	95	100
Poultry Production, slaughter weight, MT	748,000	766,000	884,000	980,000

Source: Russian State Statistic Committee, "Russian Agriculture 2002".

In terms of business investment, the Agroholding Group is one of Russia's biggest poultry producers and new investment helped increase the holding's production by 35 percent during 2002. Their poultry farm in the Kursk region is completing installation of a new broiler production site, which will increase production from 15,000 to 19,000 tons of poultry a year. The Agroholding group of companies was formed in 1992 in Kursk and has invested significant resources in a number of different enterprises. It includes poultry farms in Kursk, Tula, Orlov, Penza, Volgograd, and Chuvashia and account for about 10 percent of Russia's poultry production.

Lastly, poultry producers are more effectively using the abundant feed supplies. This includes both experimentation with better methods and formulas for the use of wheat in poultry rations and newly available feed additives. In the future, feed technology will continue to improve as investments planned for the soybean sector improve Russian

producers' access to soy protein.

(Note: When evaluating Russian statistics it is important to note that they do not match Tables 3 or 4, chicken and turkey meat production, due to the inclusion of spent hens and small farm/subsistence production. Specifically, poultry production on small farms is not included in Post analysis as this data is difficult to collect and analyze and may not accurately reflect the production of these non-commercial producers.)

Table 3. Chicken Meat Production, Supply, and Distribution

PSD Table						
Country:	Russian Federation					
Commodity:	Plty, Meat, Chicken -16 wks					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	120	120	0	130
Production	430	430	500	535	550	600
Whole, Imports	70	70	0	150	0	80
Parts, Imports	1211	1211	1220	1020	1300	1070
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	1281	1281	1220	1170	1300	1150
TOTAL SUPPLY	1711	1711	1840	1825	1850	1880
Whole, Exports	1	1	0	1	0	0
Parts, Exports	2	2	2	2	2	1
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	3	3	2	3	2	1
Human Consumption	1570	1570	1818	1670	1828	1780
Other Use, Losses	18	18	20	22	20	19
Total Dom. Consumption	1588	1588	1838	1692	1848	1799
TOTAL Use	1591	1591	1840	1695	1850	1800
Ending Stocks	120	120	0	130	0	80
TOTAL DISTRIBUTION	1711	1711	1840	1825	1850	1880

Table 4. Turkey Meat Production, Supply, and Distribution

PSD Table						
Country:	Russian Federation					
Commodity:	Poultry, Meat, Turkey					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	7	7	8	9	10	11
Whole, Imports	1	1	4	5	0	5
Parts, Imports	163	163	161	155	165	130
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	164	164	165	160	165	135
TOTAL SUPPLY	171	171	173	169	175	146
Whole, Exports	0	0	0	0	0	0
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Consumption	170	170	172	168	174	145
Other Use, Losses	1	1	1	1	1	1
Total Dom. Consumption	171	171	173	169	175	146
TOTAL Use	171	171	173	169	175	146
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	171	171	173	169	175	146

Consumption

Total consumption of poultry is forecast to grow again in 2003, by four percent. This growth is expected to be buoyed by the large stocks of chicken imported in late 2002 and early 2003. These imports should support domestic consumption of chicken in 2003, but consumption of turkey meat will decrease under the quota as companies use their quota share for chicken imports. This is likely because turkey is less popular than chicken and considered less versatile. The unknown factors will be the market access of poultry prior to the imposition of the quota and the price changes that

will take place among the meats due to the introduction of the poultry quota and TRQs on pork and beef.

Consumption of poultry in Russia did not suffer a steep decline as a result of the 2002 ban on U.S. poultry due to the increased supplies from other countries. Every other supplier increased their exports to Russia, which compensated for the slowdown and stoppage of U.S. supplies.

Consumption growth is expected to continue at a rapid pace due to three key factors: price, processing, and income growth. Poultry prices, as shown in Table 6, continue to be significantly lower than other meats. Moreover, according to Russian State Statistics Committee, meat prices in 2002 rose significantly slower (two percent) than overall food products (eleven percent). Thus, meat is more competitive relative to other food products and poultry, as the lowest priced meat, is capturing a significant share of this growth.

Price also has been driving the growth of poultry meat in the processing sector. Chicken is the meat of choice for the development of products new to Russia, such as chicken nuggets. Other import aspects of poultry demand are a wide range of products demanded by consumers. Since Russia contains a wide range of income levels, there are significant numbers of consumers that buy the range of products from offal to breast meat, thereby maintaining a strong demand in all poultry meat product categories.

Chicken also plays a key role in terms of allowing mid-to-lower-price restaurants and cafeterias develop new menus and dishes at low cost. This is important as restaurants and convenience foods start to take on a larger and more important role in Russian consumption patterns. These consumption patterns are being shaped by the general growth in incomes, as seen in Table 5, though young and urban consumers driver the growth in restaurants, cafes, Western-style fast-food, and convenience foods.

Table 5. Average Income in the Russian Federation, 2000-2002

	2000	2001	January-June 2002
Income per capita, rubles per month	2,196	2,878	3,656
Actual income growth versus the previous year, percent	N.A.	106	105
Average pension	694	1,023	N.A.
Actual increase in pensions versus the previous year, percent	N.A.	121	N.A.

Source: Russian State Statistic Committee

Table 6. Russian Retail Prices, rubles/kilo

	1997	1998	1999	2000	2001
Beef, excluding boneless	15.8	30.0	42.0	52.7	70.3

Pork, excluding boneless	19.1	34.0	43.4	58.5	79.2
Poultry	16.1	30.7	39.2	48.8	56.9
Boiled sausage	26.8	43.8	61.6	78.0	96.0

Source: Russian State Statistic Committee

Trade

In 2003, Russia is forecast to import 1.15 MMT of chicken meat plus 135,000 MT of turkey meat. Trade will be down in both products due to the introduction of the poultry quota. However, trade in the first quarter of 2003 will compensate for the lower imports under the quota, thus overall chicken meat trade will decrease by less than one percent in 2003. However, it is expected that turkey meat will suffer to a greater extent under the quota, with a forecast decline of 16 percent.

According to the Russian State statistic committee, poultry imports decreased by roughly nine percent in 2002 and the share of each exporting country and products in total imports changed significantly. The share of the United States fell from 78 percent in 2001 to 56 percent in 2002, while share of all other countries increased. Brazil made the most significant gains, mainly by exporting whole chickens to Russia. Brazil increased its share of Russian imports from seven percent to 19 percent, reaching almost 195,000 MT of poultry. The share of whole birds in total imports also increased from six percent in 2001 to 13 percent in 2002, mostly due to Brazil's commanding 77 percent share of the whole bird export niche.

Stocks

Stocks of poultry increased throughout late 2002 and are expected to grow rapidly in early 2003 as importers prepare for the implementation of the quota. Thus, ending stocks in 2002 were higher than average due to concern over quota implementation. Industry contacts comment that little excess storage capacity will remain unfilled by the time the quota begins. However, stocks are forecast to decrease significantly during 2003 because domestic production cannot keep up with demand left unfulfilled by imports.

Importers and processors brought in as much product as their resources permitted them to each time a new crisis threatened during 2001 and 2002. This uncertainty was fueled by press speculation of quotas and TRQs in 2001 in 2002 and problems surrounding the new veterinary certificate issues in 2002.

Policy

In the later part of 2002, difficulties arose regarding the re-certification of U.S. poultry plants and export facilities to the requirements of the new veterinary certificate used for the export of poultry to the Russian Federation. Russian and U.S. veterinary experts held consultations following the November inspection of U.S. facilities by Russian veterinary experts. Understanding was reached on some issues, however another round of consultations is expected in early February 2003 in order to reach an agreement for the resumption of Russian inspections of U.S. plants.

Poultry Quota

On December 30, 2002, a committee on trade measures in the Ministry of Economic Development and Trade recommended to the Russian Government that a quota be placed on imports of poultry into the Russian Federation as the result of a safeguard investigation. The Government of the Russian Federation adopted that recommendation on January 23, 2003. Thus, a quota will be placed on all poultry imports into the Russian Federation beginning May 1. The quota will limit all imports under the 0207 Harmonized Tariff Code, i.e. all poultry products.

The level of the quota was set at 1.05 MMT, with a 268,000 MT breakout for mechanically deboned meat (MDM), Russian tariff codes 0207.14.1000 and 0207.27.1000. The quota will be based on a calendar year and the first year of the quota will be prorated, so that in 2003 the quota will be 744,000 MT of poultry with a 190,000 MT MDM breakout. Additionally, in the first year of the quota, the volume of imports will be allocated on a historical trade basis, in terms of country of origin and importer. Thus, the United States is expected to receive about 75 percent of the quota (and the MDM breakout) and will be distributed to historical importers according to their share of imports during the reference period. This quota will be administered by the Ministry of Economic Development and Trade, though the Ministry of Agriculture will check cold storage capacity and other details for all imports.

Significant uncertainty remains regarding several aspects of the quota. First, import permits issued from January 1-30 were cancelled by the Ministry of Agriculture on January 31. This action was reportedly done so that new permits could be issued for the interim period prior to the quota, from February 4 to April 30. Though Russian authorities have stated that product that has left port for shipment to Russia prior to February 4 will not be denied entry based on the old permit, it is unclear whether the Ministry of Agriculture can re-issue permits quickly enough, as even a short delay will inhibit the ability of exporters to utilize the short time frame prior to the quota. Secondly, quota administration is very complicated and a smooth implementation is desirable for imports and Russian consumers. The acknowledged difficulties the Russian Federation has had with administering the sugar TRQ is not a good example of reaching its established goals of price stability and production increases. Price stability is an expressly stated goal of the Russian Government for the poultry quota and this will be key in terms of consumer purchasing power and demand. Lastly, with the implementation of TRQs on the other meats, the price relationship between poultry, beef, and pork may change and alter the relative demand among the meats. All of these factors will have a significant influence on the production, supply, and distribution of poultry for the next several years.